

NEW HOPE TELEPHONE COOPERATIVE

STATEMENTS OF INCOME

Years Ended October 31, 2012 and 2011

See Independent Accountant's Review Report

2012

2011

Operating Revenue

Local network services

Network access services

Long distance network services

Miscellaneous

Uncollectible revenues

Operating Expenses

Plant specific operations:

Network support

General support

Central office switching

Central office transmission

Information origination/termination

Cable and wire facilities

Plant non-specific operations:

Network operations

Depreciation

Access expenses

Other property, plant, and equipment

Customer operations

Corporate operations:

Executive and planning

General and administrative

Operating taxes

Operating loss

Non-Operating Income

Non-regulated income

Non-regulated expenses

Investment income

Other non-operating income

Net income before income taxes

Federal and State Income Tax Expense

Net income

See Notes to Financial Statements.

NEW HOPE TELEPHONE COOPERATIVE

STATEMENTS OF MEMBERS' EQUITY

Years Ended October 31, 2012 and 2011

See Independent Accountant's Review Report

	Certificates of Membership	Accumulated Earnings	Other Comprehensive Income (Loss)	Total
Balance, November 1, 2010				
Net income				
Unrealized gains on securities, net of income tax expense of [REDACTED]				
Total comprehensive income				
Return of accumulated earnings				
Decrease in memberships, net				
Balance, October 31, 2011				
Net income				
Unrealized gains on securities, net of income tax expense of [REDACTED]				
Total comprehensive income				
Return of accumulated earnings				
Prior capital payments forfeited				
Decrease in memberships, net				
Balance, October 31, 2012				

NEW HOPE TELEPHONE COOPERATIVE

STATEMENTS OF CASH FLOWS

Years Ended October 31, 2012 and 2011

See Independent Accountant's Review Report

	2012	2011
Cash Flows From Operating Activities		
Net income		
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation		
Deferred income taxes		
Loss (gain) on disposal of property and equipment		
Net gain on investments accounted for under the equity method		
Decrease (increase) in:		
Trade receivables		
Inventories		
Income taxes receivable		
Prepaid expenses		
Increase (decrease) in:		
Accounts payable		
Income taxes payable		
Accrued expenses		
Net cash provided by operating activities		
Cash Flows From Investing Activities		
Purchase of property and equipment		
Purchase of marketable securities		
Distributions received from equity investment		
Proceeds from sale of marketable securities		
Net cash used in investing activities		
Cash Flows From Financing Activities		
Return of membership certificates		
Decrease in customer deposits		
Accumulated earnings returned to members, net of forfeitures		
Net cash used in financing activities		
Decrease in cash		
Cash Balance, beginning		
Cash Balance, ending		

NEW HOPE TELEPHONE COOPERATIVE

NOTES TO FINANCIAL STATEMENTS

See Independent Accountant's Review Report

Note 1. Nature of Business and Significant Accounting Policies

New Hope Switchboard Association of New Hope, Virginia (Association) was formed October 2, 1902 and later began trading under the name The New Hope Telephone Company of New Hope, Virginia. During 2005, the Association incorporated in the Commonwealth of Virginia and became New Hope Telephone Cooperative (Cooperative). The Cooperative is entitled to carry on business as a telephone company under a Certificate of Public Convenience and Necessity issued by the Commonwealth of Virginia.

The Cooperative provides telephone and Internet service to approximately 800 residential and commercial customers in the New Hope area, which is located in Augusta County, Virginia.

Significant accounting policies are as follows:

Cash: The Cooperative maintains its cash in bank deposit accounts which, at times, exceeded federally insured limits. The Cooperative has not experienced any losses in such accounts. The Cooperative believes it is not exposed to any significant credit risk on cash.

Valuation of trade receivables: Accounts receivable are uncollateralized customer obligations due under normal trade terms requiring payment within 30 days from the bill date. Unpaid accounts receivable with invoice dates over 30 days old bear interest at 1.5% per month.

Accounts receivable are stated at the amount billed to customer plus any accrued and unpaid interest. Customer account balances with invoices dated over 90 days are considered delinquent. When an account becomes delinquent, telephone service is disconnected and the account is placed on nonaccrual status. Interest accruals cease and do not resume unless the account ceases to be classified as delinquent.

The carrying amount of receivables is reduced by a valuation allowance that reflects management's best estimate of the amounts that will not be collected. Management individually reviews all delinquent accounts receivable balances. An additional allowance is recorded based on certain percentages of aged receivables, which are determined based on historical experience. After all attempts to collect a receivable have failed, the receivable is written off against the allowance.

The allowance for doubtful accounts at October 31, 2012 and 2011 was [REDACTED], respectively. The recorded investment in delinquent trade receivables still accruing interest and those on nonaccrual status is immaterial at October 31, 2012 and 2011.

Inventories: Inventory of replacement parts and supplies is stated at the lower of cost or market with cost determined principally using an average costing method.

NEW HOPE TELEPHONE COOPERATIVE

NOTES TO FINANCIAL STATEMENTS

See Independent Accountant's Review Report

Note 1. Nature of Business and Significant Accounting Policies (Continued)

Investment in marketable securities: The Cooperative has a portfolio of investments in money market and mutual funds. Management determines the appropriate classification of the securities at the time they are acquired and evaluates the appropriateness of such classifications at each balance sheet date. The classification of those securities and the related accounting policies are as follows:

Available-for-sale securities – Available-for-sale securities consist of marketable equity securities not classified as trading or held-to-maturity. Available-for-sale securities are stated at fair value, and unrealized holding gains and losses are reported as a separate component of members' equity.

Property, plant and equipment: Telephone plant in service is reported at cost, which includes the materials, equipment and installation purchased from suppliers, plus labor and overhead. The cost of materials, labor and overhead incurred in the routine maintenance of plant is charged to operations in the accounting period incurred. Depreciation is computed using an accelerated method based on estimated useful lives of 5 to 25 years.

Estimates and assumptions: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from those estimates.

Subsequent events: Subsequent events have been evaluated through January 25, 2013, which was the date the financial statements were available to be issued.

NEW HOPE TELEPHONE COOPERATIVE

NOTES TO FINANCIAL STATEMENTS

See Independent Accountant's Review Report

Note 2. Investments

The following is a summary of the Cooperative's investment in marketable securities as of October 31, 2012 and 2011:

	2012	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Market Value
Certificate of Deposit and Money Market Funds					
Mutual Funds					
Capital World Bond Fund					
Columbia Mid Cap Value Fund					
Credit Suisse Commodity Return					
Strategy Fund					
Dodge & Cox Income Fund					
Dodge & Cox International Stock Fund					
Eaton Vance Income Fund					
Franklin High Income Fund					
Hartford Dividend and Growth Fund					
ING Global Real Estate Fund					
JP Morgan Core Bond Fund Select					
Legg Mason Clear Bridge Aggressive					
Growth Fund					
Loomis Sayles Investment Grade Bond Fund					
Lord Abbett Total Return Fund					
Managers Cadence Capital Appreciation Fund					
Metropolitan West Funds Total Return					
Bond Fund					
MFS Growth Fund					
MFS International Value Fund					
MFS Value Fund					
Munder Mid Cap Core Growth Fund					
Oppenheimer International Bond Fund					
T Rowe Price Dividend Growth Fund					
T Rowe Price New Income Fund					
Thornburg International Value Fund					

NEW HOPE TELEPHONE COOPERATIVE

NOTES TO FINANCIAL STATEMENTS

See Independent Accountant's Review Report

Note 2. Investments (Continued)

2011	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Market Value
Certificate of Deposit and Money Market Funds				
Mutual Funds				
Franklin Income Fund				
Franklin Mutual Beacon Fund				
Franklin Mutual Shares Fund				
Templeton Growth Fund				
Templeton Global Bond Fund				
Templeton World Fund				
Templeton Mutual Discovery Fund				
American Balance Fund				
Bond Fund of America				
Capital Income Builder Fund				
Capital World Growth & Income Fund				
Income Fund of America				

The Cooperative also holds investments in telecommunications partnerships, which are accounted for under the equity method. Ownership interest and activity in each investment during the years ended October 31, 2012 and 2011 was as follows:

	Virginia Independent Telephone Alliance (VITAL)
Ownership Interest	
Carrying Value at November 1, 2010	
2011 Income allocated to the Cooperative	
2011 Income offset by unrecognized losses	
2011 Distributions	
Carrying Value at October 31, 2011	
2012 Income allocated to the Cooperative	
2012 Distributions	
Carrying Value at October 31, 2012	

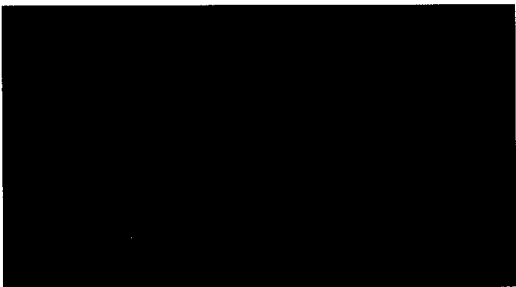
NEW HOPE TELEPHONE COOPERATIVE


NOTES TO FINANCIAL STATEMENTS

See Independent Accountant's Review Report

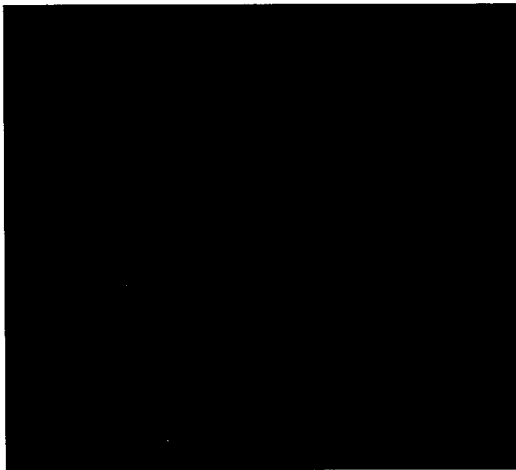
Note 2. Investments (Continued)

Under the equity method, the investor accounts for its investment by increasing the carrying value of the investment for contributions made and its share of income earned. Any losses or distributions from the investment decrease the carrying value of the investment. Once losses have reduced the carrying value to zero, any additional losses allocated to the investor can only reduce the carrying value down to a liability of the investor's amount of debt and contribution guarantees. Any losses which do not reduce the carrying value of the investment are carried forward and are used to offset future income allocated to the investor from the investment. At October 31, 2012 and 2011, the Cooperative's share of Virginia PCS Alliance, L.C.'s non-recognized losses totaled zero. The investment has been reduced to zero and a liability recognized as follows:

	2012	2011
Guaranteed debt and commitments to contribute to equity at October 31		
Income recognized, cumulative		
Distributions received, cumulative		

For the years ended October 31, 2012 and 2011, the Cooperative recognized  as investment income from Virginia PCS Alliance, L.C., respectively.

Investment income is composed of the following:

	2012	2011
Interest, dividends and capital gain distributions		
Interest paid on customer deposits		
Realized gain (loss) on sale of investments		
VITAL income		
PCS Alliance income		
Gain (loss) on disposal of equipment		

NEW HOPE TELEPHONE COOPERATIVE

NOTES TO FINANCIAL STATEMENTS

See Independent Accountant's Review Report

Note 3. Retirement Plan

The Cooperative has adopted a simplified employer pension plan which covers all full-time employees. The Cooperative is required to annually match 5% of the employee's compensation. The cost of this plan to the Cooperative was [REDACTED] for the years ended October 31, 2012 and 2011, respectively.

Note 4. Income Taxes

The Cooperative is exempt from federal income taxes under Section 501(c)(12) of the Internal Revenue Code when it receives 85% of revenues from its members. For the years ended October 31, 2012 and 2011, the Cooperative's member revenue was less than 85% of the Cooperative's total gross revenue. Consequently, the Cooperative became a taxable entity and filed a federal and Virginia corporate income tax return.

Deferred income tax assets and liabilities are determined using the liability method. Under this method, the net deferred tax asset or liability is determined based on the tax effects of the temporary differences between the book and tax basis of the various balance sheet assets and liabilities, and gives current recognition to changes in tax rates and laws.

The Cooperative adopted the provisions of accounting for uncertainty in income taxes, as of November 1, 2009. The adoption had no material effect on the Cooperative's financial statements. It is the Cooperative's policy to recognize interest and/or penalties related to income tax matters in income tax expense.

Management does not believe it is exposed to any uncertain tax positions as they are defined within accounting principles. The Cooperative files income tax returns with the United States federal jurisdiction and the Commonwealth of Virginia. Such returns for the tax years ended October 31, 2010 through 2012 remain open to potential examination by taxing authorities.

The deferred tax asset, classified entirely as long-term, consists of the following components as of October 31, 2012 and 2011:

	2012	2011
Unrealized net gains (losses) on securities (included in Other Comprehensive Income)	[REDACTED]	[REDACTED]
Cumulative book/tax differences on partnership investments		

The provision for income taxes consist of the following for the years ended October 31, 2012 and 2011:

	2012	2011
Current	[REDACTED]	[REDACTED]
Deferred (benefit)		

NEW HOPE TELEPHONE COOPERATIVE

NOTES TO FINANCIAL STATEMENTS

See Independent Accountant's Review Report

Note 5. Fair Value of Financial Instruments

Effective for the year ended October 30, 2012, the Cooperative adopted Accounting Standards Update ("ASU") 2010-06, *Improving Disclosures about Fair Value Measurements*. This new accounting guidance under ASC 820, *Fair Value Measurements and Disclosures*, was issued by the FASB on January 21, 2010. The additional disclosures required about fair value measurements include, among other things, (a) the amounts and reasons for certain significant transfers among the three hierarchy levels of inputs, (b) the gross, rather than net, basis for certain Level 3 roll-forward information, (c) use of a "class" basis rather than a "major category" basis for assets and liabilities, and (d) valuation techniques and inputs used to estimate Level 2 and Level 3 fair value measurements. The following information incorporates these new disclosure requirements.

Under the FASB's authoritative guidance on fair value measurements, fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In determining fair value, the Cooperative uses various methods including market, income and cost approaches. Based on these approaches, the Cooperative often utilizes certain assumptions that market participants would use in pricing the asset or liability, including assumptions about risk and or the risks inherent in the inputs to the valuation technique. These inputs can be readily observable, market corroborated, or generally unobservable inputs. The Cooperative utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. Based on the observability of the inputs used in the valuation techniques the Cooperative is required to provide the following information according to the fair value hierarchy. The fair value hierarchy ranks the quality and reliability of the information used to determine fair values. Financial assets and liabilities carried at fair value will be classified and disclosed in one of the following three categories:

Level 1 — Quoted prices for identical assets and liabilities traded in active exchange markets, such as the New York Stock Exchange.

Level 2 — Observable inputs other than Level 1 including quoted prices for similar assets or liabilities, quoted prices in less active markets, or other observable inputs that can be corroborated by observable market data. Level 2 also includes derivative contracts whose value is determined using a pricing model with observable market inputs or can be derived principally from or corroborated by observable market data.

Level 3 — Unobservable inputs supported by little or no market activity for financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation; also includes observable inputs for nonbinding single dealer quotes not corroborated by observable market data.

For the fiscal year ended October 31, 2012 the application of valuation techniques applied to similar assets and liabilities has been consistent. The following is a description of the valuation methodologies used for instruments measured at fair value:

NEW HOPE TELEPHONE COOPERATIVE

NOTES TO FINANCIAL STATEMENTS

See Independent Accountant's Review Report

Note 5. Fair Value of Financial Instruments (Continued)


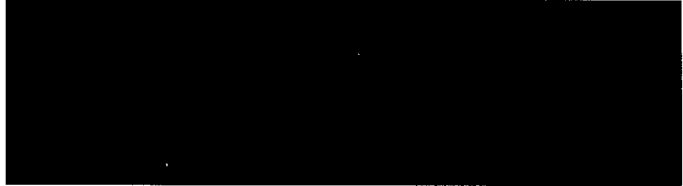
Mutual Fund Investments: The fair value of mutual fund investments is based on quoted market rates. These investments are classified as Level 1 due to observable inputs.

Certificates of Deposit: Long-term certificates of deposit (maturity beyond one year) are priced using a market value pricing model. The market value pricing model uses observable Level 1 inputs to arrive at an estimate of fair value; however, there is not an active market for which to trade these assets. Accordingly, certificates of deposit are considered Level 2 investments in the fair value hierarchy.

Cash Equivalents and Money Market Accounts: Cash equivalent and money market account balances are stated at cost. Cost approximates fair value. These investments are classified as Level 1 in the fair value hierarchy.

In determining the appropriate levels, the Cooperative performs a detailed analysis of the assets and liabilities that are being measured and reported on a fair value.

The table below presents the balances of investments measured at fair value on a recurring basis by level within the hierarchy at October 31, 2012 and 2011.

2012	Level 1	Level 2	Level 3	Total
Mutual Funds				
Money Market				
Certificate of Deposit				
2011	Level 1	Level 2	Level 3	Total
Mutual Funds				
Money Market				
Certificate of Deposit				

Note 6. Reclassification

Certain accounts in the prior-year financial statements have been reclassified for comparative purposes to conform with the presentation in the current-year financial statements.



**INDEPENDENT ACCOUNTANT'S REPORT
ON THE SUPPLEMENTARY INFORMATION**

To the Board of Directors
New Hope Telephone Cooperative
New Hope, Virginia

Our reviews were made for the purpose of expressing limited assurance that there are no material modifications that should be made to the basic financial statements in order for them to be in conformity with accounting principles generally accepted in the United States of America. The supplementary information which follows is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the inquiry and analytical procedures applied in the reviews of the basic financial statements and we did not become aware of any material modifications that should be made to such information.

PB Mares, LLA

Harrisonburg, Virginia
January 25, 2013

NEW HOPE TELEPHONE COOPERATIVE
COMPARATIVE FINANCIAL STATISTICS

	October 31,				
	2012	2011	2010	2009	2008
Income Statistics					
Operating revenue					
Operating expenses					
Operating income (loss)					
Net income					
Percent of operating income (loss)					
to operating revenue					
Percent of net income					
to operating revenue					
Percent of net income					
to members' equity					
Balance Sheet Statistics					
Cash					
Inventories					
Receivables and other					
Total current assets					
Total current liabilities					
Working capital					
Ratio of current assets to					
current liabilities					
Property, plant and equipment					
Acquisition of property, plant					
and equipment					
Number of outstanding					
certificates of membership					
Certificates of membership					
Members' equity					